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C O N F I D E N T I A L SEOUL 000136

SIPDIS

E.O. 12958: DECL: 01/29/2030
TAGS: [PREL](#) [PHUM](#) [PGOV](#) [SOCI](#) [ECON](#) [KN](#) [KS](#)
SUBJECT: INFLATION, HOARDING HAVE DPRK REGIME BARING ITS
TEETH, NGOS SAY

REF: SEOUL 81

Classified By: POL M/C James L. Wayman. Reasons 1.4 (b/d).

Summary

1. (C) Interlocutors from several North Korea-focused NGOs have told us that inflation is rising rapidly in the DPRK in the wake of the regime's currency replacement fiasco. State-run stores list the current price for a kilo of rice at 44 new North Korean Won (NKW) but have no rice to sell; in black markets where rice is available, the cost is 500 new NKW. Our contacts asserted that the black market exchange rate is now 1,000 new NKW to the dollar, more than 10 times the official rate, prompting ordinary North Koreans to hoard their goods or engage in barter trade. The combination of inflation and widespread hoarding has reportedly prompted the regime to take steps to short-circuit potential unrest. Border guard units have begun a "50 Day Battle" against unauthorized crossings into China. Our interlocutors confirmed ROK media reports that some people caught crossing into the PRC have been publicly executed. End summary.

Refugee NGO Leaders on DPRK Inflation...

2. (SBU) In a series of discussions during the past week, "Network for North Korean Democracy and Human Rights" Secretary General Kim Yun-tae, "Daily NK" Editor Shin Ju-hyun, and "Committee for the Democratization of North Korea" Vice-Chairman Kang Chol-hwan asserted that inflation is rising rapidly in the DPRK in the wake of the regime's replacement of its currency. Echoing what we have heard elsewhere (reftel), Kim and Shin claimed that the price of staple goods like rice and corn have risen particularly sharply since the beginning of the year. They explained that while State stores uniformly list the price of a kilo of rice as 44 new North Korean Won (NKW), they do not have actual rice to sell at that price. In cities where black markets are open and have rice available for purchase, Kim and Shin asserted, the current price is nearly 500 new NKW per kilo. Black market exchange rates for foreign currency are similarly skyrocketing, they said. The official exchange rate is 79 new NKW to the dollar, but the black market rate in Sinuiju, Hyesan and around Pyongyang is now approximately 1,000 new NKW to the dollar, they said.

3. (SBU) Kang Chol-hwan, a gulag survivor and author of "Aquariums of Pyongyang," said the DPRK regime's reaction to the inflation reflected its ignorance of basic economics: it has printed more money and significantly boosted salaries. Kim and Shin agreed with Kang's assertion that the recent pay hikes have now brought average wages to their previous,

pre-currency replacement levels.

...Barter Trade and Hoarding...

¶4. (SBU) All of our interlocutors reported that black markets are functioning throughout the country but on a radically smaller scale than before the currency replacement. Most ordinary North Koreans were reacting to inflation by hoarding their goods or by engaging in barter trade when, for example, they needed to procure grain. Kim and Shin related that, according to contacts in Hyesan, government officials were trying to jawbone traders into selling rice to the regime for 40 new NKW per kilo; traders were refusing, they asserted, opting to "wait things out." Kang claimed that the DPRK's sudden acceptance of 10,000 metric tons of corn from the ROK government was a sign of just how desperate the regime is to fill empty shelves at State-run stores.

...and a "50 Day Battle"

¶5. (C) According to our contacts, the combination of inflation and hoarding has prompted the DPRK regime to take steps to short-circuit potential unrest. For example, they noted that Kim Jong-il has made widely-publicized visits/pep talks to public security organizations, and border guard units have begun a "50 Day Battle" against unauthorized crossings into China. Citing mobile phone conversations with contacts inside North Korea, our interlocutors corroborated ROK media reports that some people caught crossing into the PRC have been publicly executed. Kang related that he has spoken to several non-elite North Koreans who have made it

safely into China during the past few weeks. Asked why they fled, all cited the currency replacement and some, Kang asserted, said they thought Kim Jong-il had "finally gone crazy."

STEPHENS